

**EVALUATION OF THE CERTIFICATE OF NEED APPLICATION SUBMITTED ON
BEHALF OF SWEDISH HEALTH SERVICES PROPOSING TO LEASE PUBLIC
HOSPITAL DISTRICT #2 OF SNOHOMISH COUNTY DBA STEVENS HOSPITAL
LOCATED IN SNOHOMISH COUNTY**

LESSEE DESCRIPTION

Swedish Health Services (SHS) is a not-for-profit corporation and a 501(c)(3) exempt organization with 100% ownership of Swedish Medical Center.¹ Swedish Medical Center is also a Washington private, not-for-profit corporation and a 501(c)(3) exempt organization. Swedish Medical Center provides Medicare and Medicaid acute care services at the following three campuses in King County.

SHS-First Hill Campus	747 Broadway, Seattle
SHS-Ballard Campus	5300 Tallman Avenue Northwest, Seattle
SHS-Cherry Hill Campus	500 – 17 th Avenue, Seattle

The First Hill and Ballard campuses are operated under a single hospital license that combines both campuses.² The Cherry Hill campus is operated under a single license separate from the other two campuses. [source: Department of Health's hospital licensing files and CN historical files] For this project, SHS is the lessee.

LESSOR DESCRIPTION

Public Hospital District #2 of Snohomish County (hospital district) is a not-for profit health district governed by a five-member board of commissioners. The hospital district has partial ownership in two ancillary healthcare organizations known as Stevens Radia Imaging Center and PacLab, Inc.³ Both of these organizations provide outpatient services in Edmonds. The hospital district also has full operational responsibility for Steven Hospital located at 21601 – 76th Avenue West in Edmonds. [source: Application, p1, Stevens Hospital website, PacLab, Inc. website, and Radia Imaging website]

Stevens Hospital is currently licensed for a total of 217 acute care beds, and within the 217 bed license, Stevens Hospital operates a 25-bed dedicated psychiatric unit and a 9-bed level 2 intermediate care nursery. In 1980, Stevens Hospital established its 25-bed PPS exempt psychiatric unit as approved under CN #560-545. On January 2, 2008, Stevens Hospital elected to remove its PPS exemption status, however, the 25 beds remain dedicated for

¹ Swedish Health Services also has ownership percentages in a variety of other healthcare entities, such as home health, ambulatory surgery, and urgent care clinics. Since these entities are not pertinent to this project, they will not be discussed in this evaluation.

² On June 12, 2009, Swedish Health Services received a determination of non-reviewability from the Certificate of Need Program allowing the First Hill campus and Ballard campus to be licensed separately without prior Certificate of Need review and approval. As of the writing of this evaluation, separate licensure has not occurred.

³ PacLab Network Laboratories is an integrated network of clinical laboratories that provides service to physicians and patients throughout western Washington. PacLab provides these services through partnership with a variety of healthcare entities. PacLab has a location within Stevens Hospital.

psychiatric/mental health services. ⁴ [source: June 15, 2010, supplemental information, pp3-4] A breakdown of the acute care beds at Stevens Hospital is below.

Type of Service	# of Beds
General Medical/Surgical	183
Level 2 intermediate care nursery	9
Dedicated Psychiatric	25
Total	217

Services currently provided at Stevens Hospital include general medical surgical, emergent care, critical care, diagnostic and imaging services, psychiatric/mental health, cardiac services (including percutaneous coronary interventions [PCI]), and obstetrical, including a 9-bed level 2 intermediate care nursery. [source: Application, pp12-13]

PROJECT DESCRIPTION

On February 26, 2010, SHS created a separate corporation known as Swedish Edmonds, where SHS is 100% sole member. This application proposes the long-term lease of Radia Imaging, PacLab, Inc., and Stevens Hospital by Swedish Edmonds. The lease agreement is for 30 years, with two 10-year options to renew. [source: Application, p2 and Exhibits 1 & 15]

Under the lease agreement, Stevens Hospital will continue participation in both the Medicare and Medicaid programs, and maintain all essential services currently offered by the hospital. SHS indicates that the name of the hospital may change, however, a new name has not been identified. For this project, SHS is the lessee, even though a new corporation was created for this project, and the hospital district is the lessor. For ease of reference, the hospital will continue to be referenced as Stevens Hospital, and the two ancillary services included in the lease agreement will be referenced as Radia Imaging and PacLab.

SHS identified an estimated capital expenditure for the lease of Stevens Hospital of \$2,898,000. This amount includes legal and consulting fees for the project, assigned costs to SHS for Stevens

⁴ Prospective Payment System (PPS) is a method of reimbursement in which Medicare payment is made based on a predetermined, fixed amount. The payment amount for a particular service is derived based on the classification system of that service (for example, diagnosis-related groups [DRGs] for inpatient hospital services). CMS uses separate PPSs for reimbursement to acute inpatient hospitals, home health agencies, hospice, hospital outpatient, inpatient psychiatric facilities, inpatient rehabilitation facilities, long-term care hospitals, and skilled nursing facilities. Since October 1, 1983, most hospitals have been paid under the hospital inpatient PPS. However, certain types of specialty hospitals and units were excluded from PPS because the PPS diagnosis related groups do not accurately account for the resource costs for the types of patients treated in those facilities. Facilities originally excluded from PPS included rehabilitation, psychiatric, children's, cancer, and long term care hospitals, rehabilitation and psychiatric hospital distinct part units, and hospitals located outside the 50 states and Puerto Rico. These providers continued to be paid according to Section 1886(b) of the Social Security Act, as amended by Section 101 of the Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982. They are frequently referred to as TEFRA facilities or PPS exempt. These facilities are paid on the basis of Medicare reasonable costs per case, limited by a hospital specific target amount per discharge. Each hospital has a separate payment limit or target amount which was calculated based on the hospital's cost per discharge in a base year. The base year target amount is adjusted annually by an update factor. [source: CMS website]

Hospital's capital ventures, and the estimated value of Steven's Hospital's joint ventures assigned to SHS. [source: June 15, 2010 supplemental information, pp1-2]

APPLICABILITY OF CERTIFICATE OF NEED LAW

This project is subject to Certificate of Need (CN) review because it is the lease of all or part of an existing hospital under Revised Code of Washington (RCW) 70.38.105(4)(b) and Washington Administrative Code (WAC) 246-310-020(1)(b).

CRITERIA EVALUATION

WAC 246-310-200(1)(a)-(d) identifies the four determinations that the department must make for each application. WAC 246-310-200(2) provides additional direction in how the department is to make its determinations. It states:

"Criteria contained in this section and in WAC 246-310-210, 246-310-220, 246-310-230, and 246-310-240 shall be used by the department in making the required determinations.

(a) In the use of criteria for making the required determinations, the department shall consider:

- (i) The consistency of the proposed project with service or facility standards contained in this chapter;*
- (ii) In the event the standards contained in this chapter do not address in sufficient detail for a required determination the services or facilities for health services proposed, the department may consider standards not in conflict with those standards in accordance with subsection (2)(b) of this section; and*
- (iii) The relationship of the proposed project to the long-range plan (if any) of the person proposing the project."*

In the event the WAC 246-310 does not contain service or facility standards in sufficient detail to make the required determinations, WAC 246-310-200(2)(b) identifies the types of standards the department may consider in making its required determinations. Specifically WAC 246-310-200(2)(b) states:

"The department may consider any of the following in its use of criteria for making the required determinations:

- (i) Nationally recognized standards from professional organizations;*
- (ii) Standards developed by professional organizations in Washington state;*
- (iii) Federal Medicare and Medicaid certification requirements;*
- (iv) State licensing requirements;*
- (v) Applicable standards developed by other individuals, groups, or organizations with recognized expertise related to a proposed undertaking; and*
- (vi) The written findings and recommendations of individuals, groups, or organizations with recognized expertise related to a proposed undertaking, with whom the department consults during the review of an application."*

To obtain Certificate of Need approval, SHS must demonstrate compliance with the applicable criteria found in WAC 246-310-210 (need); 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); and 246-310-240 (cost containment).⁵

APPLICATION CHRONOLOGY

March 4, 2010	Letter of Intent Submitted
April 30, 2010	Application Submitted
May 1, 2010, through June 21, 2010	Department's Pre-Review Activities <ul style="list-style-type: none">• screening activities and responses
June 22, 2010	Department Begins Review of the Application <ul style="list-style-type: none">• public comments accepted throughout the review• no public hearing requested or conducted
July 13, 2010	End of Public Comment
July 28, 2010	Rebuttal Documents Received at Department
August 17, 2010	Department's Anticipated Decision Date
August 17, 2010	Department's Actual Decision Date

AFFECTED AND INTERESTED PERSONS

Washington Administrative Code 246-310-010(2) defines "affected person as:

"...an "interested person" who:

- (a) is located or resides in the applicant's health service area;
- (b) testified at a public hearing or submitted written evidence; and
- (c) requested in writing to be informed of the department's decision."

Throughout the review of this project, one entity sought and received affected person status under WAC 246-310-010(2) – Providence Health and Services. Providence Health and Services is a regional delivery network of organizations offering healthcare through its hospitals, extended care facilities, home health, adult day health, and assisted living facilities. Providence Health and Services operates Providence Regional Medical Center located in Everett, within Snohomish County.

Those who sought and received interested persons status are listed below.

- SEIU 1199NW—a union representing 22,000 nurses, healthcare employees, and mental health workers in hospitals, agencies, and clinics across Washington State;
- Health Facilities Planning and Development—a consulting firm in Seattle; and
- Ogden Murphy Wallace—a law firm in Seattle.

⁵ Each criterion contains certain sub-criteria. The following sub-criteria are not discussed in this evaluation because they are not relevant to this project: WAC 246-310-210(1), (3), (4), (5), (6) and WAC 246-310-240(2) and (3).

SOURCE INFORMATION REVIEWED

- Swedish Health Services' Certificate of Need Application received April 30, 2010
- Swedish Health Services' supplemental information received June 15, 2010
- Public comments received at the Certificate of Need Program office by July 13, 2010
- Rebuttal comments submitted by Swedish Health Services by July 28, 2010
- Comprehensive Hospital Abstract Reporting System (CHARS) data obtained from the Department of Health's Hospital and Patient Data Systems
- Historical charity care data obtained from the Department of Health's Hospital and Patient Data Systems (2006, 2007, and 2008 summaries)
- Financial feasibility and cost containment evaluation prepared by the Department of Health's Hospital and Patient Data Systems received July 29, 2010
- Licensing and/or survey data provided by the Department of Health's Investigations and Inspections Office
- Data obtained from the internet regarding Swedish Health Systems (www.swedish.org)
- Data obtained from the internet regarding Public Hospital District #2 dba Stevens Hospital (www.stevenshealthcare.org)
- Data obtained from the internet regarding SEIU 1199NW (www.seiu1199nw.org)
- Historical Certificate of Need and Investigations and Inspections files

CONCLUSION

For the reasons stated in this evaluation, the application submitted by Swedish Health Services on behalf of Swedish Edmonds proposing a 30 year lease of Stevens Hospital is consistent with applicable criteria of the Certificate of Need Program, and a Certificate of Need should be issued provided the applicant agrees to the terms and conditions stated below.

The approved capital expenditure for this project is \$2,898,000.

TERMS:

1. Within 20 days of finalizing the lease of Stevens Hospital, Swedish Health Services will submit to the Certificate of Need Program for review and approval a final, executed Agreement to Lease and Operate the Hospital, including all finalized exhibit attached to the lease. The executed Agreement to Lease and Operate the Hospital must be consistent with the draft policy provided in the application.
2. Within 45 days of finalizing the lease of Stevens Hospital, Swedish Health Services will submit to the Certificate of Need Program for review and approval a final, adopted Swedish Edmonds Admission Policy. The final Admission Policy must be consistent with the draft policy provided in the application.
3. Within 45 days of finalizing the lease of Stevens Hospital, Swedish Health Services will submit to the Certificate of Need Program for review and approval a final, adopted Swedish Edmonds Case Management Assessment and Discharge Planning Policy. The final Case Management Assessment and Discharge Planning Policy must be consistent with the draft policy provided in the application.
4. Within 45 days of finalizing the lease of Stevens Hospital, Swedish Health Services will submit to the Certificate of Need Program for review and approval a final,

adopted Swedish Edmonds Community Service Policy. The final Community Service Policy must be consistent with the draft policy provided in the application.

5. Within 60 days of finalizing the lease of Stevens Hospital, Swedish Health Services will submit to the Certificate of Need Program an adopted copy of Swedish Edmonds Charity Care Policy approved by the Department of Health's Hospital and Patient Data Systems Program.

CONDITIONS

1. Swedish Edmonds will provide charity care in compliance with the charity care policies provided in this Certificate of Need application, or any subsequent policies reviewed and approved by the Department of Health. Swedish Edmonds will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the Puget Sound Region. Currently, this amount is 4.23% for adjusted revenue. Swedish Edmonds will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies.
2. Stevens Hospital is currently licensed for 217 acute care beds broken down below. Any change in this bed configuration requires prior Certificate of Need review and approval.

Type of Service	# of Beds
General Medical/Surgical	183
Level 2 intermediate care nursery	9
Dedicated Psychiatric	25
Total	217

3. SHS and the district must submit an applicability determination as outlined in WAC 246-310-050 prior to implementing changes approved through the exception process identified in the 'Agreement to Lease and Operate the Hospital.'
4. Any modification to the exception list outlined in the 'Agreement to Lease and Operate the Hospital' above requires an amendment to this approval.

A. Need (WAC 246-310-210)

Based on the source information reviewed and the applicant's agreement to the terms and conditions identified in the "Conclusion" section of this evaluation, the department determines that Swedish Health Services has met the need criteria in WAC 246-310-210(2).

- (2) All residents of the service area, including low-income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly are likely to have adequate access to the proposed health service or services.

Stevens Hospital is currently a provider of health care services to residents of Washington State, including low-income, racial and ethnic minorities, handicapped and other underserved groups. As an acute care hospital, Stevens Hospital also currently participates in the Medicare and Medicaid programs. To determine whether all residents of the service area would continue to have access to a hospital's proposed services, the department requires applicants to provide a copy of its current or proposed admission policy. The admission policy provides the overall guiding principles of the facility as to the types of patients that are appropriate candidates to use the facility and any assurances regarding access to treatment.

To demonstrate compliance with this sub-criterion, SHS provided a copy of Stevens Hospital's current Admission and Case Management Assessment / Discharge Planning policies used at the hospital. The existing policies outline the process/criteria that Stevens Hospital currently uses to admit patients for treatment or care at the hospital. [source: Application, Exhibits 5 & 8] Additionally, to ensure that the current policies would not change as a result of SHS's lease of Stevens Hospital, SHS provided a copy of the draft Admission and Case Management Assessment / Discharge Planning policies that would be used once the lease was effective. [source: June 15, 2010, supplemental information, Exhibits 16 & 19] A comparison of the current and draft policies shows the only change in the draft policies is the phrase "Stevens Hospital is replaced with the phrase "Swedish Edmonds." The draft policies outline the process/criteria that Stevens Hospital will use to admit patients for treatment or care at the hospital under the lease agreement with SHS.

To determine whether low income residents would have access to the proposed services, the department uses the facility's Medicaid eligibility or contracting with Medicaid as the measure to make that determination. To determine whether the elderly would have access or continue to have access to the proposed services, the department uses Medicare certification as the measure to make that determination.

Stevens Hospital currently provides services to Medicare and Medicaid eligible patients. Documents provided in the application demonstrate that SHS intends to file change of ownership documentation with the Medicare and Medicaid programs within 30 days of CN approval. This process secures participation in the Medicare and Medicaid programs under the name of "Swedish Edmonds." This process includes an automatic assignment of the existing provider agreement that permits uninterrupted billing to the Medicare Program. Additionally, pro forma revenue and expense statements provided in the application demonstrate that the hospital will continue participation in the Medicare and Medicaid programs. [source: Application, pp9 & 10; June 15, 2010, supplemental information, p3]

A facility's charity care policy should confirm that all residents of the service area including low-income, racial and ethnic minorities, handicapped and other underserved groups have, or would have, access to healthcare services of the applicant. The policy should also include the process one must use to access charity care at the facility.

To demonstrate compliance with this sub-criterion, SHS provided a copy of Stevens Hospital's current Charity Care Policy and Community Service Policy used at the hospital. [source: Application, Exhibits 6 & 7] SHS demonstrated its intent to continue to provide charity care to residents by submitting a copy of Swedish Edmonds draft Charity Care and Community Service policies. A comparison of the current and draft policies shows the only change in the draft policies is the phrase "Stevens Hospital" is replaced with "Swedish Edmonds." The draft policies outline the process/criteria that patients would use to access this service from Swedish Edmonds. Further, SHS included a 'charity care' line item as a deduction from revenue within the pro forma financial documents for Swedish Edmonds. [source: June 15, 2010, supplemental information, Exhibits 17, 18, & 20]

For charity care reporting purposes, the Department of Health's Hospital and Patient Data Systems program (HPDS), divides Washington State into five regions: King County, Puget Sound (less King County), Southwest, Central, and Eastern. Stevens Hospital is located in Snohomish County within the Puget Sound Region. Currently there are 18 hospitals located within the region, including Stevens Hospital. According to 2006-2008⁶ charity care data obtained from HPDS, Stevens Hospital has historically provided less than the average charity care provided in the region. Stevens Hospital's most recent three-year (2006-2008) percentages of charity care for gross and adjusted revenues are 1.80% and 3.88%, respectively. The 2006-2008 average for the Puget Sound Region is 1.95% for gross revenue and 4.23% for adjusted revenue. [source: HPDS 2006-2008 charity care summaries]

Providence Regional Medical Center-Everett (PRMC-E) provided comments on SHS's application related to this sub-criterion. [source: July 13, 2010, public comments, p1] The comments are restated below.

"We are puzzled that the projected amount of charity care will decrease from 2010 to 2015 as a percent of net patient service revenue (page 214 of the application). It would seem reasonable that if the volume increases as projected and with no significant changes in services provided, that the level of charity care provided by Swedish Edmonds would at least remain the same or increase. We would appreciate clarification of this assumption."

SHS provided rebuttal comments related to PRMC-E's comments above. An excerpt of the comments is restated below. [source: July 28, 2010, rebuttal documents, pp1-2]

"...The pro forma financial forecasts, included in the application in Exhibit 18A, show an increasing commitment in terms of charity care dollars, increasing from \$10.077 million in 2011 to \$11.038 million in 2015. The absolute commitment to charity care increases by \$961,000 during the forecast period of 2011-2015. As a percent of Net Patient Services Revenue, the amount of charity care provided remains

⁶ Year 2009 charity care data is not available as of the writing of this evaluation.

constant in the projections at 6.5 percent. ...In drafting its comments, PRMCE may have been confused by the number/percentage for 2010. However, that number reflects a 4-month period only, and was driven solely off of the 2010 Stevens Hospital budget. The 'with project' model begins with full year 2011 forward. ...In summary, charity care in absolute dollars increases, and in percentage terms, remains constant. Furthermore, we note that under the terms of the lease, any material change in the charity care policy for Swedish Edmonds would require the approval of the district (Application , p.122)."

Department's Review

SHS provided pro forma revenue and expense statements and proposed charity care policies to demonstrate that Swedish Edmonds would provide charity care at approximately 2.01% of adjusted revenue, and 4.65% of gross revenue. Both of these are greater than the average charity care provided in the region. [source: June 15, 2010, supplemental information, Exhibit 20]

RCW 70.38.115(2)(j) requires hospitals to meet or exceed the regional average level of charity care. Stevens Hospital has historically provided less charity care than the regional average. To ensure compliance with RCW 70.38.115(2)(j) and this sub-criterion, the department concludes a charity care term and condition is necessary.⁷ Additionally, within the application SHS appropriately provided a copy of three additional draft policies:

- Admission Policy;
- Case Management Assessment and Discharge Planning Policy; and
- Community Service Policy

To ensure that the SHS would continue to operate in conformance with this sub-criterion, SHS must agree to the terms and conditions stated below.

TERMS:

Within 45 days of finalizing the lease of Stevens Hospital, Swedish Health Services will submit to the Certificate of Need Program for review and approval a final, adopted Swedish Edmonds Admission Policy. The final Admission Policy must be consistent with the draft policy provided in the application.

Within 45 days of finalizing the lease of Stevens Hospital, Swedish Health Services will submit to the Certificate of Need Program for review and approval a final, adopted Swedish Edmonds Case Management Assessment and Discharge Planning Policy. The final Case Management Assessment and Discharge Planning Policy must be consistent with the draft policy provided in the application.

Within 45 days of finalizing the lease of Stevens Hospital, Swedish Health Services will submit to the Certificate of Need Program for review and approval a final, adopted

⁷ On November 13, 2009, the department issued CN #1408 to Stevens Hospital approving the establishment of an adult elective percutaneous coronary intervention (PCI) service. The approval identified a similar condition related to charity care. Since the approval was in year 2009 and 2009 charity care data is not yet available from HPDS, the department will also attach a similar condition to this approval. CN #1408 was executed on March 1, 2010, when Stevens Hospital began providing PCI services consistent with the approval.

Swedish Edmonds Community Service Policy. The final Community Service Policy must be consistent with the draft policy provided in the application.

Within 60 days of finalizing the lease of Stevens Hospital, Swedish Health Services will submit to the Certificate of Need Program an adopted copy of Swedish Edmonds Charity Care Policy approved by the Department of Health's Hospital and Patient Data Systems Program.

CONDITION:

Swedish Edmonds will provide charity care in compliance with the charity care policies provided in this Certificate of Need application, or any subsequent policies reviewed and approved by the Department of Health. Swedish Edmonds will use reasonable efforts to provide charity care in an amount comparable to or exceeding the average amount of charity care provided by hospitals in the Puget Sound Region. Currently, this amount is 4.23% for adjusted revenue. Swedish Edmonds will maintain records documenting the amount of charity care it provides and demonstrating its compliance with its charity care policies.

B. Financial Feasibility (WAC 246-310-220)

Based on the source information reviewed and the applicant's agreement to the terms and conditions identified in the "Conclusion" section of this evaluation, the department determines that Swedish Health Services has met the financial feasibility criteria in WAC 246-310-220.

(1) The immediate and long-range capital and operating costs of the project can be met.

WAC 246-310 does not contain specific WAC 246-310-220(1) financial feasibility criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what the operating revenues and expenses should be for a project of this type and size. Therefore, using its experience and expertise the department evaluates if the applicant's pro forma income statements reasonably project the proposed project is meeting its immediate and long-range capital and operating costs by the end of the third complete year of operation.

SHS identified an estimated capital expenditure for the lease of Stevens Hospital to be \$2,898,000; of that amount, \$750,000 would be funded by SHS's current equity. The remaining cost of \$2,148,000 would be funded by Swedish Edmonds operations. [source: Application, pp16-17]

To demonstrate that the hospital would generate the amounts necessary to meet immediate and long range capital and operating costs for this project, SHS provided pro forma financial statements for years 2011 through 2015 showing the hospital's first five years of operation under the lease agreement. [source: Application, p214; July 28, 2010, supplemental information, pp9-11]

Table 1
Stevens Hospital
Projected Revenue and Expenses for Years 2011 through 2015

	2011	2012	2013	2014	2015
# Admissions	8,503	8,885	9,285	9,703	9,808
# Patient Days	36,468	38,109	39,824	41,617	42,106
% Occupancy	64.0%	66.9%	69.9%	73.1%	73.9%
Net Patient Revenue*	\$ 154,382,399	\$ 158,135,353	\$ 162,042,098	\$ 67,517,789	\$ 170,031,013
Plus Other Operating Revenue	\$ 6,669,714	\$ 6,776,412	\$ 6,886,310	\$ 6,999,506	\$ 7,077,234
Total Revenues	\$ 161,052,113	\$ 164,911,765	\$ 168,928,408	\$ 174,517,295	\$ 177,108,247
Minus Expenses	\$ 157,231,491	\$ 158,099,523	\$ 162,287,224	\$ 166,966,401	\$ 169,426,023
Net Profit or (Loss)	\$ 3,820,622	\$ 6,812,242	\$ 6,641,184	\$ 7,550,894	\$ 7,682,224

*Includes deductions for bad debt and charity care

SHS based its projections shown in Table 1 on the assumptions summarized below. [source: Application, p214; July 28, 2010, supplemental information, pp9-11]

- The number of set up, licensed beds remains at 156;
- The average length of stay (ALOS) is 4.29 days, consistent with the hospital's current ALOS;
- The number of admissions and patient days excludes normal newborns;
- No change in the scope of services is assumed.
- 'Other Operating Revenue' includes joint venture income from Radia, PacLab, and Stevens Hospital's share of the current cancer center agreement with SHS; rental income from Radia for its current space; cafeteria revenue, and management services income from Sound Women's Care.
- 'Other Adjustments/Allowances' is included in deductions from revenues and shows administrative adjustments for discounts for package pricing to payers, write-offs for late charges, and small balance write-offs.
- The expense line item includes allocated costs estimated at 0.44% of total patient services revenue; and
- The expense line item also includes purchased services, interest expense, and depreciation.

With the assumptions above, SHS expects that the hospital will operate at a net profit beginning in 2011, four months after the lease agreement is effective (September 1, 2010).

PRMC-E provided comments on SHS's application related to psychiatric care and volume growth assumptions. [source: July 13, 2010, public comments, pp1-2] The comments are summarized below.

Psychiatric Care:

PRMC-E recognizes that Stevens Hospital provided in and out-patient psychiatric services under a PPS exemption for many years through year 2007. In 2008, Stevens Hospital relinquished its PPS exemption. Since 2008, Stevens Hospital's psychiatric days and discharges have been declining. PRMC-E requests clarification regarding Stevens Hospital's long term commitment to provide inpatient psychiatric services.

Volume Growth Assumptions:

PRMC-E recognizes the costs efficiencies outlined in the application to be gained from new management structure; however, it questions the rapid inpatient growth and the applicant's ability to sustain the growth when it is not in concurrence with a rapid population increase. PRMC-E inquires about contingency plans for achieving the cost savings projected by the hard to achieve volume increases in light of health care reform, which will push more and more patient care to the outpatient setting.

SHS provided rebuttal comments related to PRMC-E's two issues raised above, which are summarized below. [source: July 28, 2010, rebuttal documents, pp2-4]

Psychiatric Care:

SHS provided a table showing Stevens Hospital's MDC 19 discharges for years 2003 through 2009.⁸ The table is recreated below.

MDC 19	2003	2004	2005	2006	2007	2008	2009
Discharges	604	576	690	751	603	376	461
Patient Days	5,324	5,229	5,680	5,497	5,247	3,767	4,800

SHS states that the downward trend of number of days was only from 2006 through 2008, and was primarily related to physician staffing. SHS states the downward trend has reversed in 2009. SHS did not provide 'contingency plans' as requested by PRMC-E.

Volume Growth Assumptions:

SHS states that PRMC-E's comments focus on two separate issues: 1) projected volume growth; and 2) cost efficiencies. SHS further asserts that its application addresses both issues in detail. For volume growth, SHS projected to restore a drop in discharges experienced from year 2008 to 2009. SHS relied on the following assumption to project this increase in volume growth.

"The base year is set equal to the 2010 budget for Stevens Hospital. Admissions are forecast to increase 4.5% per year over 2011-2014, reflective of the assumed beneficial effect of the affiliation, the stronger name recognition of Swedish, and the collaboration benefit from operations as part of a system of care. Beginning in 2015, acute admissions' growth is reduced to 1% per year. (page 34 of application)"

For cost efficiencies, SHS restates its intent to consolidate Stevens Hospital into the SHS organization. This allows SHS to grow Stevens Hospital's volumes and spread fixed and variable costs over a larger base, resulting in lowering costs per unit of service. SHS also discusses the ability to use clinical personnel and technology not otherwise available to Stevens Hospital. These efficiencies are independent of volume growth and are expected to provide cost saving benefits to Stevens Hospital in the immediate term.

⁸ Inpatient psychiatric patient days are reported under Major Diagnostic Category (MDC) 19.

Department's Review

After reviewing the concerns raised by PRMC-E and SHS's response to those concerns, the department concludes the following related to psychiatric services and volume growth assumptions.

Psychiatric Care:

On November 26, 1974, Public Hospital District #2-Snohomish County was issued CN #070 approving the establishment of a 16 bed psychiatric unit at Stevens Hospital.⁹ On September 29, 1989, Public Hospital District #2-Snohomish County was issued CN #560-545 approving a large expansion/remodel project and the addition of 30 acute care beds to the hospital. The 30 bed addition included an increase of 11 psychiatric beds, bringing Stevens Hospital's psychiatric beds from 15 to 26. Historical records indicate that the project approved under CN #560-545 was complete by the end of year 1981, however, it appears that only 10 additional beds were added resulting in a 25 bed psychiatric unit.

Historical records do not show when Stevens Hospital received its PPS exemption for its psychiatric beds, however, in a letter dated January 3, 2008, CMS (Centers for Medicare & Medicaid Services) approved Stevens Hospital's request to voluntarily terminate its PPS exemption for 25 psychiatric beds effective January 21, 2008. Years 2008 and 2009 CHARS data demonstrates that Stevens Hospital continues to provide inpatient and outpatient psychiatric services without its PPS exemption. Given that Stevens Hospital received specific CN approval for at least 25 psychiatric beds, the use of these beds is limited to psychiatric services. These 25 beds cannot be used for general medical/surgical services at the hospital without prior Certificate of Need review and approval.

Documentation provided during this review indicates that SHS intends to continue to provide psychiatric services at Swedish Edmonds. The documentation includes:

- The Agreement to Lease and Operate the Hospital between SHS, Swedish Edmonds, and the hospital district [Application, Exhibit 4]
- Pro forma financial statement submitted by SHS [Application, Exhibits 10 and 11]
- SHS's June 15 2010, supplemental information related to continued psychiatric services,
- SHS's June 15, 2010, revised pro forma financial statements [Exhibit 20]
- SHS's July 27, 2010, rebuttal statements related to continued psychiatric services

Currently, Stevens Hospital is one of few hospitals in western Washington that continues to provide inpatient and outpatient psychiatric services. To further ensure that Stevens Hospital will continue to provide these much needed services to the community, if this project is approved, the department would include a condition limiting the use of the existing 25 psychiatric beds to psychiatric services.

⁹ In 1974 and 1989 the facility was known as "Stevens Memorial Hospital."

Volume Growth Assumptions:

SHS provided extensive documentation to demonstrate its volume growth assumptions are reasonable. Within the application, SHS is confident that its assumptions are reasonable and reliable. Since 1992, SHS has entered into affiliation agreements with two hospitals: Ballard Hospital in Ballard and Providence Seattle Hospital in Seattle. Both hospitals appear to be operating efficiently and effectively.

PRMC-E suggests that the department require SHS to provide contingency plans if the hospital's volume growth projections do not materialize. Based on SHS's past accomplishments, the department concludes that SHS presented a well reasoned, meaningful, and reliable plan to increase and maintain volume growth at Stevens Hospital. A contingency plan is unnecessary.

To analyze short- and long-term financial feasibility of hospital projects and to assess the financial impact of a project on overall facility operations, the department uses financial ratio analysis. The analysis provided by HPDS assesses the financial position of an applicant both historically and prospectively. The financial ratios utilized are 1) long-term debt to equity ratio; 2) current assets to current liabilities ratio; 3) assets financed by liabilities ratio; 4) total operating expense to total operating revenue ratio; and 5) debt service coverage ratio. If a project's ratios are within the expected value range, the project can be expected to be financially feasible.

For Certificate of Need applications, HPDS compares the projected ratios with the most recent year's financial ratio guidelines for hospital operations. For this project, HPDS uses 2008 data for comparison. The ratio comparisons shown below include Swedish Health Services in 2009, Stevens Hospital in 2009, and projected ratios for Stevens Hospital operated under the lease agreement by Swedish Edmonds. [HPDS analysis, pp2-3]

Table 2
Current and Projected HPDS Debt Ratios for Swedish Health Services and Stevens Hospital
Projected HPDS Debt Ratios for Stevens Hospital operated under Swedish Edmonds

Category	Trend*	State 2008	SHS 2009	Stevens 2009	Stevens 2011	Stevens 2012	Stevens 2013
Long Term Debt to Equity	B	0.526	0.837	0.572	33.989	11.731	7.788
Current Assets/Current Liabilities	A	1.878	1.934	1.747	0.881	0.923	1.331
Assets Funded by Liabilities	B	0.436	0.433	0.532	0.975	0.876	0.900
Operating Exp. to Operating Rev.	B	0.950	0.969	0.927	0.976	0.959	0.961
Debt Service Coverage	A	4.694	8.200	3.823	2.795	3.322	3.743

*A is better if above the ratio, and B is better if below the ratio.

Stevens Hospital has struggled in recent years to remain financially viable. This is demonstrated in the ratios above. After evaluating the current ratios for Stevens Hospital and SHS, along with projected ratios for Stevens Hospital, staff from HPDS provided the following analysis. [source: HPDS analysis, p3]

"For Swedish Health Services in 2009 the Long Term Debt to Equity ratio is out of range, however the Board Designated Assets are very strong and balance this ratio and

the operating expense to operating revenue, which is slightly low but within range. For Stevens Hospital 2009, the ratios are within reasonable range though not strong. For Swedish-Edmonds years 2011 through 2013, all the ratios are out of range except operating expense to operating revenue. These ratios are improving significantly as the assets and equity improves each year. The reason the ratios start out of range because from an accounting standpoint, the hospital is starting new, plus it [is] a lease of the hospital, not full ownership. There are certain portions of the Balance Sheet that are not comparable to full ownership or mature hospitals. The equity for Swedish-Edmonds is starting from zero and will take time to build up, unlike a mature hospital that has had years to pay down debt and retain earnings. Also, Swedish-Edmonds does not use Board Designated Assets, rather it uses Other Assets. These out of range values are normal as new entities start up. Swedish Health Services strong asset base helps secure this project. Year 2013 fiscal year end ratios for Swedish-Edmonds are acceptable and Swedish-Edmonds hospital is breaking even in the third year of operation."

Based on the information above, the department concludes that the immediate and long-range operating costs of the project can be and this sub-criterion is met.

(2) The costs of the project, including any construction costs, will probably not result in an unreasonable impact on the costs and charges for health services.

WAC 246-310 does not contain specific WAC 246-310-220(2) financial feasibility criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what an unreasonable impact on costs and charges would be for a project of this type and size. Therefore, using its experience and expertise the department compared the proposed project's costs with those previously considered by the department.

As stated in the project description section of this evaluation, SHS intends to maintain all current services at Stevens Hospital during its lease. As indicated in the pro forma projections in Table 1 and further demonstrated within the application, SHS does not intend to increase charges for health services or change the payer mix to make a net profit. [source: Application, p16] Rather SHS asserts that consolidation of Stevens Hospital into the SHS system would result in cost efficiencies. [source: SHS July 27 2010, rebuttal documents, p4]

Staff from HPDS compared the proposed costs for services after the lease of Stevens Hospital to the costs for services of existing hospitals. HPDS determined the costs and charges are reasonable and comparable. [source: HPDS analysis, p4]

Based on the information provided above, the department concludes that the cost of the project will not result in an unreasonable impact on the costs and charges for health services within the service area. This sub-criterion is met.

(3) The project can be appropriately financed.

WAC 246-310 does not contain specific source of financing criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs how a project of this type and size should be financed. Therefore, using its experience and expertise the department compared the proposed project's source of financing to those previously considered by the department.

SHS identified an estimated capital expenditure for the lease of Stevens Hospital to be \$2,898,000 broken down below. [source: June 15, 2010, supplemental information, p1]

ITEM	AMOUNT	% OF TOTAL
Estimated Value of Hospital Joint Ventures Assigned to SHS	\$ 1,200,000	41.41%
Assigned Costs for Stevens Hospital's Capital Leases	\$ 948,000	32.71%
SHS's Costs for Legal/Consulting Fees	\$ 750,000	25.88%
TOTAL CAPITAL COSTS	\$ 2,898,000	100.00%

SHS provides the following explanation of funding for the capital costs above. [source: Application, pp16-17]

"Swedish will pay due diligence costs from Swedish Health Services' operations [\$750,000]. The costs assumed for personal property associated with Stevens Hospital capital leases that are being assumed by Swedish Edmonds [\$948,000] and the acquisition of Stevens Hospital interests in joint ventures [\$1,200,000] will be funded by Swedish Edmonds' assumption of current liabilities that otherwise would be borne by the district."

A review of SHS's fiscal year 2009 balance sheet shows a healthy financial foundation with \$404 million in board designated assets. The \$750,000 SHS intends to pay with its operations is almost 0.2% of the total board designated assets. Further, a review of the financial and utilization information shows that the immediate and long-range capital expenditure as well as the operating costs can be met. Based on the information reviewed, the department concluded this sub-criterion is also met.

C. Structure and Process (Quality) of Care (WAC 246-310-230)

Based on the source information reviewed and the applicant's agreement to the terms and conditions identified in the "Conclusion" section of this evaluation, the department determines that Swedish Health Services has met the structure and process of care criteria in WAC 246-310-230.

(1) A sufficient supply of qualified staff for the project, including both health personnel and management personnel, are available or can be recruited.

WAC 246-310 does not contain specific WAC 246-310-230(1) criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what specific staffing patterns or numbers of FTEs

that should be employed for projects of this type or size. Therefore, using its experience and expertise the department concludes that the planning would allow for the required coverage.

SHS states that there are no anticipated changes in hospital clinical staffing or physician privileges. The current Stevens Hospital medical staff will remain a separate medical staff from other Swedish Medical staff, although there may be some coordination of administrative functions. There are no immediate planned changes in hospital administrative or support staff, although it is anticipated that there will be future consolidation of certain back office and other administrative functions. [source: Application, p4]

SHS further states that Stevens Hospital's current board of trustees will serve as the board of Swedish Edmonds. Further, officers, directors, and senior management of Swedish Edmonds will be the same as they are for SHS. SHS provided names and professional license numbers (if applicable) for the board of trustees. [source: June 15, 2010, supplemental information, pp1-2]

PRMC-E provided comments on SHS's application related to governance board representation. [source: July 13, 2010, public comments, p2] The comments are restated below.

"Contained in statute [RCW 70.44.240] is a requirement that a leased public hospital's governing body shall include representatives of the public hospital district. See Appendix A with emphasis added. We would like clarification that the members of the Board of Directors in fact meet this requirement. Who specifically on the Swedish Board fulfills the representation as specified in RCW 7.44.240?"

Within SHS rebuttal comments, SHS states that the requirement identified by PRMC-E is not applicable to this lease transaction. Further, the statute permits a public hospital district to contract or join with another non-profit hospital to operate a hospital and do so through 'establishment of a non-profit corporation, partnership, limited liability company, or other legal entity' whose governing body contains a representative of the public hospital district. SHS states, *"In other words, it is specific to situations where a public hospital district joins with another party in a legal entity established to carry out the contract or joint activity."* SHS asserts it is not applicable to this project because *"the proposed lease does not involve the joint operation of a hospital. Swedish Edmonds will have complete responsibility for the operation of the hospital, and will own the risk and financial results of operations. The District Commissioners will continue to operate other district facilities and will retain the authority to approve the major decisions affecting the hospital as described in Section 4.9 of the proposed lease; Exhibit 4.B.ii, page 121-122 of the application."* [source: July 28, 2010, rebuttal documents, pp3-4]

Department's Review

After reviewing the concerns raised by PRMC-E and SHS's response to those concerns, the department obtained an informal legal opinion from its assistant attorney general related to this issue. Below is that opinion. [source: August 17, 2010, AAG informal opinion]

"Swedish will form a new legal entity, Newco, to operate the hospital. Newco will be wholly controlled by Swedish. RCW 70.44.240 states that a public hospital district and another party may form a separate legal entity, in which both parties "participate", to operate the hospital. RCW 70.44.240 further states a public hospital

district representative shall serve on the governing board of the separate legal entity. Providence argues that the project fails to comply with RCW 70.44.240 because no public hospital district representative will serve on the Newco board. The Program determines that the RCW 70.44.240 representation requirement is inapplicable because the public hospital district has not participated in the formation of Newco, a wholly-controlled affiliate of Swedish."

Based on the informal opinion restated above, the department concludes that the RCW 70.44.240 representation requirement does not apply to this project because the district has not participated in the formation of Swedish Edmonds, a wholly-controlled affiliate of Swedish Health Services. This sub-criterion is met.

- (2) The proposed service(s) will have an appropriate relationship, including organizational relationship, to ancillary and support services, and ancillary and support services will be sufficient to support any health services included in the proposed project.

WAC 246-310 does not contain specific WAC 246-310-230(3) criteria as identified in WAC 246-310-200(2)(a)(i). There are known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that a facility must meet when it is to be Medicare certified and Medicaid eligible. Therefore, using its experience and expertise the department assessed the applicant's history in meeting these standards at other facilities owned or operated by the applicant.

Within the application, SHS provided descriptions of current working relationships with Stevens Hospital and other healthcare providers, including SHS. For example, radiation therapy services at Stevens Hospital are currently provided by SHS, through the Swedish Cancer Institute at the hospital. SHS also provides management services to the Stevens Breast Imaging Center, and cardiac services are provided in affiliation with the Swedish Heart Institute. Many of the Stevens Hospital cardiologists are also employed by SHS. [source: Application, p41]

Documentation provided in the application demonstrates that both SHS and district intend to continue working closely with existing providers to the betterment of the community. SHS does not anticipate any new working relationships, but will consider additional relationships as opportunities arise.

The department concludes that there is reasonable assurance that SHS will continue to maintain the necessary relationships with ancillary and support services to provide healthcare in the communities. Approval of this project would not negatively affect these relationships. This sub-criterion is met.

- (3) There is reasonable assurance that the project will be in conformance with applicable state licensing requirements and, if the applicant is or plans to be certified under the Medicaid or Medicare program, with the applicable conditions of participation related to those programs.

WAC 246-310 does not contain specific WAC 246-310-230(3) criteria as identified in WAC 246-310-200(2)(a)(i). There are known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that a facility must meet when it is to be Medicare certified and Medicaid eligible. Therefore, using its experience and expertise the department assessed the

applicant's history in meeting these standards at other facilities owned or operated by the applicant.

Stevens Hospital will continue to provide Medicare and Medicaid services to the residents of Snohomish County and surrounding communities. Currently, Stevens Hospital contracts with the Joint Commission to survey and accredit the quality of service provided. The Joint Commission lists Stevens Hospital in full compliance with all applicable standards following the most recent on-site survey in July 2008.¹⁰

The Department of Health's Investigations and Inspections Office (IIO) has completed two surveys at Stevens Hospital since 2007.¹¹ There was no adverse licensing action as a result of these surveys. [source: facility survey data provided by the IIO]

SHS is an integrated health system that includes operation of three acute care hospitals and 15 primary care clinics.¹² Compliance history reviews for three hospitals show that no substantial non-compliance issues were identified.¹³ The primary care clinics do not require licensure and are not included in any quality of care review.

Based on the historical compliance history of SHS and Stevens Hospital, there is reasonable assurance that the SHS would continue to operate Stevens Hospital in conformance with applicable state and federal licensing and certification requirements. This sub-criterion is met.

(4) The proposed project will promote continuity in the provision of health care, not result in an unwarranted fragmentation of services, and have an appropriate relationship to the service area's existing health care system.

WAC 246-310 does not contain specific WAC 246-310-230(4) criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs how to measure unwarranted fragmentation of services or what types of relationships with a services area's existing health care system should be for a project of this type and size. Therefore, using its experience and expertise the department assessed the materials in the application.

Currently Stevens Hospital has formal and informal working relationships with area skilled nursing facilities and local ambulatory surgery centers. Further, Stevens Hospital has referral relationships for home health and hospice services with Evergreen Healthcare located in King County and Providence Hospice and Home Care of Snohomish County. SHS states that continuity in the provision of health care will be accomplished with the long-term lease agreement with SHS because it allows the facility to continue operating as a hospital in the community. Further, SHS is currently developing an ambulatory care center in Mill Creek

¹⁰ <http://www.qualitycheck.org>

¹¹ Surveys were completed in years 2007 and 2010. Fire and life safety compliance reported in 2009.

¹² Under CN #1379A, SHS is constructing a new 175-bed hospital in Issaquah, within King County. Since the facility is not yet operational, it will not be discussed under this sub-criterion. The 15 primary care clinics do not require DOH licensure, and are not included in this quality of care review.

¹³ First Hill/Ballard campuses surveys were completed in 2008. Fire and life safety compliance reported in 2010. Cherry Hill campus survey completed in 2007. Fire and life safety compliance reported in 2010.

and anticipates at least an informal relationship between the hospital and the new care center. [source: Application, p41]

Provisions in the 'Agreement to Lease and Operate the Hospital' highlight SHS' intent or requirement to continue providing a sufficient level of healthcare in the community and therefore support continuity. According to the Agreement, SHS has the responsibility to make all decisions regarding the operation of the hospital and other leased assets, with ten specific and listed exceptions. The ten exceptions require the review and prior written consent of both the hospital district and SHS. The ten exceptions are listed below.

1. Reductions to the operating budgets and/or capital investments for any services defined as essential services (budgets listed in Exhibit E of the Agreement).
2. Engaging in any action that would change the bargaining units or the unions' status as the bargaining units' representative for the hospital.
3. Dispositions of any of the district assets.
4. Relocation of the hospital or creation of any new acute care hospital within the hospital primary service area.
5. Change in any acute care bed capacity at the hospital.
6. Sale or transfer of any acute care bed capacity at Stevens Hospital.
7. Any material change, not required by federal or state regulation or law in the charity care policy as they pertain to the hospitals operations (including any reduction of charity care granted.
8. Any amendment to this lease agreement.
9. Any transfer of the lease agreement.
10. Any consolidation of Medicare provider numbers for services provided on or with the leased assets with medical provider numbers for SHS or any of its affiliates.

The department notes that some of the exceptions listed above may require prior Certificate of Need review and approval before their implementation. To ensure continued compliance with this sub-criterion, the department would require two conditions. 1) SHS and the district must submit an applicability determination as outlined in WAC 246-310-050 prior to implementing changes approved through the exception process identified in the 'Agreement to Lease and Operate the Hospital.' 2) Any modifications to the exception list above require an amendment to this approval.

SHS is contractually obligated to invest an additional \$90,000,000 over the first ten years of the 30-year lease. This capital infusion is earmarked for particular improvements, programs, and services for the hospital. With improved funding and upgrades to Stevens Hospital, the hospitals may be in better position to expand services. [source: Application, Exhibit 4, pp121-122]

Stevens Hospital is a vital component of health care services in Snohomish County and its surrounding communities. SHS has committed to continue to provide the following essential services currently available at the hospital. [source: Application, p13]

- Perinatal/Obstetrical services, including cesarean section, LDRP, and level 2 obstetric services
- Critical care
- Emergency care
- Acute dialysis services
- Diagnostic services, including cardiac catheterization lab, endoscopy, imaging, laboratory
- Therapeutic services, including cardiac catheterization lab and endoscopy
- Medical services, including infusion/oncology
- Surgical services, including both inpatient and outpatient
- Contracted services, including lithotripsy
- Psychiatric services, including inpatient and out patient

Provided that SHS agrees to the conditions related to the exceptions listed in the Agreement to Lease and Operate the Hospital, the department concludes that SHS will continue to promote continuity in the provision of health care services in the community, and this sub-criterion is met

- (5) There is reasonable assurance that the services to be provided through the proposed project will be provided in a manner that ensures safe and adequate care to the public to be served and in accord with applicable federal and state laws, rules, and regulations.

This sub-criterion is addressed in sub-section (3) above and is met.

D. Cost Containment (WAC 246-310-240)

Based on the source information reviewed and the applicant's agreement to the terms and conditions identified in the "Conclusion" section of this evaluation, the department determines that Swedish Health Services has met the cost containment criteria in WAC 246-310-240(1).

- (1) Superior alternatives, in terms of cost, efficiency, or effectiveness, are not available or practicable.

To determine if a proposed project is the best alternative, the department takes a multi-step approach. Step one determines if the application has met the other criteria of WAC 246-310-210 thru 230. If it has failed to meet one or more of these criteria then the project is determined not to be the best alternative, and would fail this sub-criterion.

If the project met WAC 246-310-210 through 230 criteria, the department would move to step two in the process and assess the other options the applicant or applicants considered prior to submitting the application under review. If the department determines the proposed project is better or equal to other options the applicant considered before submitting their application, the determination is either made that this criterion is met (regular or expedited reviews), or in the case of projects under concurrent review, move on to step three.

Step three of this assessment is to apply any service or facility specific criteria (tie-breaker) contained in WAC 246-310. The tiebreaker criteria are objective measures used to compare competing projects and make the determination between two or more approvable projects which is the best alternative. If WAC 246-310 does not contain any service or facility criteria as directed by WAC 246-310-200(2)(a)(i), then the department would look to WAC 246-310-240(2)(a)(ii) and (b) for criteria to make the assessment of the competing proposals. If there are no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b), then using its experience and expertise, the department would assess the competing projects and determine which project should be approved.

Step One

For this project, SHS's project met the applicable review criteria under WAC 246-310-210, 220, and 230. Therefore, the department moves to step two below.

Step Two

Before identifying the three options considered before submitting this application, SHS provided background information related to Stevens Hospital. Specifically, the hospital has been in operation since January 1964. Since that time, it has grown from a 110-bed hospital to its current 217 bed hospital. Most recently, Stevens Hospital has struggled to remain financially viable as a stand-alone health system.

The hospital district considered three separate options.

- do nothing;
- sale of Stevens Hospital; and
- long-term affiliation/lease with another entity (this project).

The option of do nothing was quickly rejected after extensive planning, including a series of meetings with the public hospital district's stakeholders. The district members and Stevens Hospital's senior management concluded that in order for the district to successfully implement its strategic plan and continue to achieve its mission in the future, the district would be required to make significant capital investments in its healthcare facilities and equipment, enhance and expand a number of its key service lines, recruit additional physicians and other health providers, and undertake a number of other initiatives that would require significant capital investments and other monetary resources. They also concluded that it would not be possible for district to make these capital investments if it continued to operate as a stand-alone health system.

The only two options that remained were either a sale of Stevens Hospital or a long-term affiliation with another entity. After a series of confidential discussions with other potential partners and consideration of what a 'affiliation' would include, the district concluded in December 2009 that Swedish Health Services was its preferred affiliation partner and a long term lease of Stevens Hospital was the preferred approach. The district and SHS agree that improving the long-term financial viability of Stevens Hospital results in improved facilities and enhanced health care services and outcomes, and assists in the retention and recruitment of quality medical staff. It also leads to improved access to

quality healthcare for the residents of the district and surrounding areas. [source: Application, pp6-7 & pp43-52]

SHS provided documentation to demonstrate its extensive review, planning, consideration, and assessment of Stevens Hospital's historical and projected viability, including its financial viability. In addition to the lease of Stevens Hospital, SHS has committed to invest an additional \$90,000,000 over the first ten years of the 30-year lease. This capital infusion is earmarked for particular improvements, programs, and services for the hospital. [source: Application, Exhibit 4, p124] .

After reviewing the extensive process undertaken by the district and SHS to determine the best alternative for Stevens Hospital, the department concurs that the long term lease of Stevens Hospital is the best alternative for the community. This sub-criterion is met.

Step Three

For this project, only SHS's application was submitted. As a result, step three is not evaluated under this sub-criterion.